

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BUFFALO TRAIL	)	
WATER ASSOCIATION, INC. FOR A RATE	)	
ADJUSTMENT PURSUANT TO THE	)	CASE NO.
ALTERNATIVE RATE FILING PROCEDURE	)	91-473
FOR SMALL UTILITIES AND APPLICATION	)	
FOR ADJUSTMENT OF NONRECURRING	)	
CHARGES OF BUFFALO TRAIL WATER	)	
ASSOCIATION, INC.	)	

O R D E R

On June 30, 1992, Buffalo Trail Association, Inc. ("Buffalo Trail") filed its application for Commission approval of a proposed increase in its rates for water service. Commission Staff, having performed a limited financial review of Buffalo Trail's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Buffalo Trail's proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 1st day of July, 1992.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director, Acting

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION JUN 30 7 32 AM '92

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COMMISSION

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CHARGES OF BUFFALO TRAIL WATER )  
ASSOCIATION, INC. )

STAFF REPORT

Prepared By: Jack Scott Lawless, CPA  
Public Utility Financial Analyst  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

Prepared By: Nicky Moore  
Public Utility Rate Analyst  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

STAFF REPORT

ON

BUFFALO TRAIL WATER ASSOCIATION, INC.

CASE NO. 91-473

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PUBLIC SERVICE  
COMMISSION

A. Preface

On December 24, 1991, the Kentucky Public Service Commission ("Commission") received an application from Buffalo Trail Water Association, Inc. ("Petitioner") in which it requested approval for a rate adjustment pursuant to the alternative rate adjustment procedure for small utilities and application for adjustment of nonrecurring charges. After initial review of the filing, the Commission Staff ("Staff") determined that the application was deficient. Petitioner was notified as to the deficiency by a letter dated January 9, 1992 from the Executive Director of this Commission. On January 13, 1992 the Commission received a letter from Suzette Blevins of Blevins Engineering where by she requested assistance in order to cure Petitioner's filing deficiencies. To satisfy this request, Staff assisted Petitioner in the preparation of the alternative rate filing form. Assistance was provided by Jack Scott Lawless, CPA, Mark Frost, and Nicky Moore.

Nicky Moore was responsible for assistance on matters and for sections of this report related to operating revenues and rate design. The remaining sections of the alternative rate filing form and sections of this report were prepared by or under the direct supervision of Jack Scott Lawless, CPA and Mark Frost.

Staff performed a limited financial review of Petitioner's operations for the test period ended December 31, 1990. This

review was performed to provide assistance to Petitioner in the preparation of its application as well as provide a basis for this report. Jack Scott Lawless, CPA and Mark Frost, of the Commission's Division of Rates and Tariffs, conducted their review at Petitioner's office in Sardis, Kentucky on February 19, 1992. Nicky Moore performed his review of the billing analysis at the Commission's office in Frankfort, Kentucky.

On May 26, 1992 Petitioner filed a completed alternative rate filing application to cure its deficiencies in which it requested approval to increase its annual operating revenue by \$84,693.

#### Scope

The scope of the financial review was limited to obtaining information to determine whether test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed here-in.

During the course of the review Staff assisted Petitioner in identifying pro forma adjustments to test year expenses that were both known and measurable and could be supported by some form of documentation.

#### B. Determination of Adjusted Test Period Operations

##### Operating Revenues

The income statement filed by the Petitioner shows test-year operating revenues from water sales in the amount of \$123,440 and other operating income of \$2,982 for a total operating revenue of \$126,422. Staff has adjusted these revenues to reflect pro forma operations. The pro forma operating revenue from water sales is

\$121,502 and other operating income of \$2,982 for a total pro forma operating income of \$124,484. The pro forma adjustments to the test-period revenues are as follows.

Revenue for New Customers

The Petitioner will be adding 15 new customers to the water system as a result of the proposed construction project. Based on the average customer usage of 5,640 gallons per month Staff has increased test-year revenue \$3,532.<sup>1</sup>

Debt Service Payment

Petitioner had included in test-year water sales \$7,772 which was collected from the city of Mt. Olivet in the form of debt service payments. Accordingly, Staff recommends that test-year revenue be decreased by that amount.

Water Sales to Mt. Olivet Water Company

Petitioner included in test-year revenue water sales to the Mt. Olivet Water Company of \$12,347. After review of test-year sales to the city the Staff has calculated the pro forma revenue to be \$14,649. Accordingly, Staff recommends an adjustment to test-year revenue of \$2,302.<sup>2</sup>

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1	First 1,000 gallons @ \$7.50 =	\$ 7.50
	Next 4,000 gallons @ \$2.75 =	11.00
	Next 640 gallons @ \$1.75 =	1.12
		<u>\$19.62</u>
	Monthly bills	180
	Annual Revenue	<u>\$3,532</u>

2 Sales to Mt. Olivet Water Company

19,531,590 Gallons @\$0.75 =	\$14,649
Test Year Sales	<u>12,347</u>
Increased Sales	<u>\$ 2,302</u>

Operating Expenses

For the test year, Petitioner reported operating expenses of \$135,037. Staff has adjusted these expenses to reflect pro forma operations. The pro forma adjustments to test period expenses are discussed in the following sections of this report.

Salaries and Wages - Employees

Petitioner reported test year salaries and wages - employees of \$7,574. After review of the current schedule of employees and their respective salaries, Staff has calculated the pro forma salary level to be \$7,200. Accordingly, Staff recommends a decrease to test year salaries and wages of \$374.<sup>3</sup>

Purchased Water

Petitioner reported test year purchased water expense of \$47,020. Petitioner's application adjusted this expense to reflect the pro forma purchased water expense as a result of the

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<sup>3</sup>	Clerk/monthly	\$ 600
	Annualize	<u>12</u>
	Pro forma	\$ 7,200
	Less: Test year	<u>( 7,574)</u>
	Adjustment - Decrease	<u>\$ (374)</u>

normalized sales of water as calculated by Staff. This resulted in a decrease of \$907<sup>4</sup> to test year operating expenses.

### Contractual Services

Maintenance Contract: Petitioner reported test year payments to Eddie Moffard for a maintenance contract of \$20,514. The monthly payment for Mr. Moffard's current contract is \$1,750. The appropriate adjustment has been made to reflect this increased annual expense of \$486.<sup>5</sup>

Meter Reading: During the test year, Petitioner elected to begin reading meters. Petitioner pays an individual \$.50 per

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<sup>4</sup>	Normalized gallons to be sold	59,713,430
	Add: Water used by Petitioner	<u>3,000,000</u>
	Pro forma water to be used	62,713,430
	Divide by: 1-Water loss during test year	<u>88.40%</u>
	Gallons needed to be purchased	70,942,794
	Cost per gallon	<u>\$ 0.00065</u>
	Pro forma purchased water	46,113
	Less: Test year	<u>(47,020)</u>
	Adjustment - Decrease	<u>\$ (907)</u>
<sup>5</sup>	Monthly payment to Eddie Moffard	\$ 1,750
	Annualize	<u>12</u>
	Pro forma	21,000
	Less: Test year	<u>(20,514)</u>
	Adjustment - Decrease	<u>\$ 486</u>

meter per month. The appropriate adjustment of \$2,376<sup>6</sup> was made to test year operations to reflect, on an annual basis, the total number of meters being read as of the date of Staff's field review.

Audit fee: Petitioner's CPA has increased the annual audit fee by \$300.<sup>7</sup> This increase has been reflected in the calculation of pro forma contractual services.

Rate Case Expense: Petitioner incurred \$3,161 attributed to rate case expense associated with the filing of case number 91-473. These expenses were not reflected in test year operation and maintenance expense. The Commission generally allows a 3-year

<sup>6</sup>	Number of meters	536
	Times: Amount charged per meter	<u>\$ 0.50</u>
	Monthly expense	268
	Annualize	<u>12</u>
	Pro forma	3,216
	Less: Test year	<u>(840)</u>
	Adjustment-Increase	<u>\$ 2,376</u>
<sup>7</sup>	Pro forma	\$ 1,800
	Less: Test year	<u>(1,500)</u>
	Adjustment-Increase	<u>\$ 300</u>



recovery period for these type of expenses, therefore, this expense has been increased by \$1,054.<sup>8</sup>

### Insurance

General Liability: Petitioner's test period operations reflected general liability insurance expense of \$39. This amount was the result of Petitioner's adjusting journal entries, it did not include an actual premium payment. At the time of Staff's field review the annual premium for this coverage was \$1,129. The appropriate adjustment increase of \$1,090<sup>9</sup> was made to test year operating expenses.

Workmens' Compensation: Petitioner expensed workmens' compensation in the amount of \$189 during the test year. The most current annual premium paid by Petitioner was \$157. Therefore, this expense was decreased by \$32.<sup>10</sup>

8	Legal Accounting	\$ 2,561 600
	Total rate case expense Divide by: 3 years	3,161 3
	Annual Recovery Less: Test year	1,054 0
	Adjustment-Increase	<u>\$ 1,054</u>
9	Pro forma Less: Test year	\$ 1,129 (39)
	Adjustment-Increase	<u>\$ 1,090</u>
10	Pro forma Less: Test year	\$ 157 (189)
	Adjustment-Decrease	<u>\$ (32)</u>

Rent Expense

Petitioner rents the office building from which it carries out its daily operations. During the test year the rent increased from \$60 to \$75 per month. Staff has made the appropriate adjustment to operating expenses of \$180.<sup>11</sup>

Depreciation Expense

Depreciation was adjusted to properly reflect pro forma depreciation expense as a result of the construction project that was approved by this Commission in Case 91-243. Depreciation expense was calculated using a straight line basis over the estimated useful life of the asset. The calculation of the pro forma depreciation is shown in Petitioner's application. Accordingly, test year depreciation expense has been increased by \$11,270.<sup>12</sup>

Taxes Other Than Income Taxes

Petitioner reported test year taxes other than income tax expense of \$579 to reflect FICA expense for test period salaries

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11	Monthly rent	\$ 75
	Annualize	<u>12</u>
	Pro forma	900
	Less: Test year	<u>(720)</u>
	Adjustment-Increase	<u>\$ 180</u>
12	Pro forma	\$ 44,559
	Less: Test year	<u>(33,289)</u>
	Adjustment-Increase	<u>\$ 11,270</u>

and wages. Based on the salaries and wages - employees expense recommended in this report, Staff has calculated pro forma FICA expense to be \$551. Accordingly, Staff has made an adjustment to decrease test year taxes other than income tax expense by \$28.<sup>13</sup>

### Operations Summary

Based on the recommendations of Staff contained in this report, Petitioner's operating statement would appear as set forth in Appendix B to this report.

### C. Revenue Requirements Determination

Staff has calculated Petitioner's average annual debt service to be \$58,267.<sup>14</sup> Based on the adjusted test year operations, Buffalo Trail's debt service coverage ("DSC") is -1.25x.<sup>15</sup> Staff is of the opinion that a DSC of 1.2x is necessary to allow Petitioner to meet its operating expenses, service its debt, and provide for reasonable equity growth. Therefore, Staff recommends an allowance for a 20 percent DSC or \$11,653.<sup>16</sup>

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13	Pro forma salaries and wages - employees	\$ 7,200
	Times: FICA rate	<u>7.65%</u>
	Pro forma FICA	551
	Less: Test year	<u>(579)</u>
	Adjustment-Decrease	<u>\$ (28)</u>
14	FmHA #91-03	\$ 21,588
	FmHA #91-05	13,632
	Three year average of new debt payments	<u>23,047</u>
	Debt Service Requirement	<u>\$ 58,267</u>

15  $\$(14,773) + \$58,267 = -1.25$

16  $\$58,267 \times .2 = 11,653$

In summary, Staff recommends that Buffalo Trail be allowed to increase its annual revenues by \$84,693, calculated as follows:

Adjusted Operating Expenses	\$ 150,452
Annual Debt Service	58,267
20 Percent DSC	<u>11,653</u>
Total Revenue Requirement	\$ 220,372
Less: Operating Revenues	(124,484)
Non-Operating Income	(7,772)
Interest Income	<u>(3,423)</u>
Required Increase	<u>\$ 84,693</u>

D. Rate Design

Buffalo Trail filed a schedule of its existing and proposed rates and did not propose any changes in the rate structure. The Staff agrees that the present rate structure should not be altered.

In addition, Buffalo Trail proposed to increase the service connection charges for 3/4, 5/8, 1, 1 1/2 meters and furnished cost studies to support proposed changes. The Staff agrees that the changes are justified.

The billing analysis filed in the application is based on a test period ending December 31, 1991. Insofar that the revenue produced by the billing analysis did not exactly match pro forma revenue the Petitioner used an adjustment factor<sup>17</sup> to reconcile the difference. The Staff concurs with the methodology used by

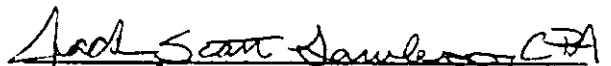
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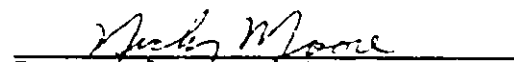
<sup>17</sup> Adjust Billing Analysis Revenue to Actual Revenue

$$\begin{array}{l} \text{Pro forma Revenue} \\ \text{Billing Analysis Revenue} \end{array} \frac{106,853}{114,622} = .932196 \text{ Adjustment Factor}$$

the Petitioner and has used the same adjustment factor in determining revenue and rates.

E. Signatures

  
Prepared By: Jack Scott Lawless,  
Public Utility Financial Analyst  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

  
Prepared By: Nicky Moore  
Public Utility Rate Analyst  
Communications, Water and  
Sewer Rate Design Branch  
Research Division

## APPENDIX A

The Staff recommends the following rate be prescribed for customers of Buffalo Trail Water Association, Inc.

<u>GALLONAGE BLOCKS FOR EACH METER SIZE</u>	<u>MONTHLY RATE FOR EACH GALLONAGE BLOCK</u>
<u>5/8 Inch x 3/4 Inch Meter</u>	
First 1,000 gallons	\$13.50 Minimum Bill
Next 4,000 gallons	4.95 per 1,000 gallons
Next 5,000 gallons	3.15 per 1,000 gallons
Over 10,000 gallons	2.70 per 1,000 gallons
<u>3/4 Inch Meter</u>	
First 5,000 gallons	\$33.30 Minimum Bill
Next 5,000 gallons	3.15 per 1,000 gallons
Over 10,000 gallons	2.70 per 1,000 gallons
<u>1 Inch Meter</u>	
First 10,000 gallons	\$49.05 Minimum Bill
Over 10,000 gallons	2.70 per 1,000 gallons
<u>1 1/2 Inch Meter</u>	
First 15,000 gallons	\$62.55 Minimum Bill
Over 15,000 gallons	2.70 per 1,000 gallons
<u>2 Inch Meter</u>	
First 20,000 gallons	\$76.05 Minimum Bill
Over 20,000 gallons	2.70 per 1,000 gallons
<u>Coin Operated Water Sales</u>	
First 1,000 gallons	\$25.00 Minimum Bill
All Over 1,000 gallons	2.00 per 1,000 gallons
<u>Sales To Mt. Olivet Water Company</u>	
All Water Purchased	\$ .75 per 1,000 gallons
<u>Service Connection For Various Meter Sizes</u>	
5/8 Inch Meter	\$500.00 per meter connection
3/4 Inch Meter	500.00 per meter connection
1 Inch Meter	566.13 per meter connection
1 1/2 Inch Meter	745.13 per meter connection
2 Inch Meter	at Actual Cost

APPENDIX B  
TO STAFF REPORT CASE NO. 91-473

Buffalo Trail Water Association, Inc.  
Calculation of Income Available for Debt Service

	Test Year	Adjustments	Adjusted Test Year
Operating Revenues			
Sales of Water	\$123,440	\$3,532 (7,772) (12,347)	\$106,853
Sales of Water Not Subject to Increase		14,649	14,649
Other Operating Income	2,982		2,982
Total Operating Revenue	126,422	(1,938)	124,484
Operating Expenses			
Operation and Maintenance			
Salaries and wages - Employees	7,573	(374)	7,199
Purchased water	47,020	(907)	46,113
Materials and supplies	20,274		20,274
Contractual services	23,083	486 2,376 300 1,054	27,299
Insurance	784	1,090 (32)	1,842
Miscellaneous	2,178	180	2,358
Total Operation and Maintenance	100,912	4,173	105,085
Depreciation	33,289	11,270	44,559
Taxes Other Than Income Taxes	836	(28)	808
Total Operating Expenses	135,037	15,415	150,452
Net Operating Income	(8,615)	(17,353)	(25,968)
Other Income			
Interest Income	3,423		3,423
Income from Mt. Olivet		7,772	7,772
Income Available for Debt Service	(\$5,192)	(\$9,581)	(\$14,773)